

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MASON COUNTY ROAD COMMISSION	County MASON
Fiscal Year End 12/31/06	Opinion Date 02/26/07	Date Audit Report Submitted to State 06/26/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) THOMAS R ZICK CPA, P.C.		Telephone Number 989-786-4032	
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Authorizing CPA Signature 		Printed Name THOMAS R. ZICK	Zip 49756
		License Number 1101007478	

MASON COUNTY ROAD COMMISSION
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

MASON COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Robert Thurow
Commissioner

Douglas Robidoux
Commissioner

Nicholas Matiash
Commissioner

Gary L. Dittmer
Engineer/Manager

Mary Acker
Secretary of the
Board & Clerk

**MASON COUNTY ROAD COMMISSION
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Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

February 26, 2007

Board of County Road Commissioners
Mason County
Scottville, MI 49454

I have audited the accompanying financial statements of the governmental activities and major fund of the Mason County Road Commission, a component unit of Mason County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Mason County Road Commission as of December 31, 2006 and the respective changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note N the Mason County Road Commission has retroactively reported general infrastructure assets, as allowed by provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended and interpreted as of December 31, 2006.

In accordance with Government Auditing Standards, I have also issued my report dated February 26, 2007, on my consideration of Mason County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in conjunction with this report in assessing the results of my audit.

The management's discussion and analysis on pages 3-8 and budgetary comparisons on pages 26 and 27 are not a required part of the basic financial statements, but supplementary information is required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mason County Road Commission's basic financial statements. Other supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Mason County Road Commission. The other supplementary information is presented for purposes of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA P.C." in a cursive script.

Thomas R. Zick CPA, P.C.
Certified Public Accountant

MASON COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Mason County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail that the government-wide statements.

REPORTING THE COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The road commission currently has only one fund, the general operations fund. All of the road commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the road commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The road commission's net assets increased 5.14% from \$25,084,924 to \$26,374,388 as of December 31, 2006. The net assets are summarized below. The net assets have been retroactively adjusted for infrastructure from 1980 through 2002.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The investment in capital assets, net of related debt, was \$24,970,086 at December 31, 2005 and \$26,081,477 as of December 31, 2006. The increase in net assets is primarily the result of infrastructure of \$2,298,408 and equipment. The road commission retroactively reported infrastructure assets (assets acquired after 1980) in 2006 as permitted by Governmental Accounting Standards Board (GASB) Statement No. 34.

Net assets as of year ended December 31, 2006 and December 31, 2005 (2005 has been retroactively adjusted for infrastructure from 1980-2002).

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ (Decrease)</u>
Current and Other Assets	\$ 1,726,407	\$ 3,159,864	\$ (1,433,457)
Capital Assets (Net)	<u>26,374,388</u>	<u>25,084,924</u>	<u>1,289,464</u>
Total Assets	<u>28,100,795</u>	<u>28,244,788</u>	<u>(143,993)</u>
Long-Term Debt Outstanding	277,572	249,017	28,555
Other Liabilities	<u>511,489</u>	<u>1,520,722</u>	<u>(1,009,233)</u>
Total Liabilities	<u>789,061</u>	<u>1,769,739</u>	<u>(980,678)</u>
Net Assets			
Invested in Capital Assets Net of			
Related Debt	26,081,477	24,970,086	1,111,391
Restricted	<u>1,290,257</u>	<u>1,504,963</u>	<u>(214,706)</u>
Total Net Assets	<u>\$ 27,371,734</u>	<u>\$ 26,475,049</u>	<u>\$ 896,685</u>

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Changes in Net Assets

A summary of changes in net assets follows:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ (Decrease)</u>
Revenues			
Licenses and Permits	\$ 9,994	\$ 7,096	\$ 2,898
State Grants	4,928,940	4,683,748	245,192
Contributions from Local Units	482,807	658,065	(175,258)
Charges for Services	426,999	638,366	(211,367)
Interest and Rents	73,632	82,975	(9,343)
Gain on Equipment Disposal/Other	305,797	16,058	289,739
Total Program Revenue	<u>6,228,169</u>	<u>6,086,308</u>	<u>141,861</u>
Expenditures			
Public Works	5,322,044	3,915,442	1,406,602
Interest Expense	9,440	7,895	1,545
Total Expenditures	<u>5,331,484</u>	<u>3,923,337</u>	<u>1,408,147</u>
Increase (Decrease) in Net Assets	<u>\$ 896,685</u>	<u>\$ 2,162,971</u>	<u>\$ (1,266,286)</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

Changes in Operating Fund

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ (Decrease)</u>
Revenues			
Licenses and Permits	\$ 9,994	\$ 7,096	\$ 2,898
State Grants	4,928,940	4,683,748	245,192
Contributions from Local Units	482,407	658,065	(175,658)
Charges for Services	426,999	638,366	(211,367)
Interest and Rents	73,632	82,975	(9,343)
Other / Gain on Equipment Disposal	305,797	16,058	289,739
Total Program Revenue	<u>6,227,769</u>	<u>6,086,308</u>	<u>141,461</u>

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Changes in Operating Fund (Continued)

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ (Decrease)</u>
Expenditures			
Public Works	\$ 6,200,593	\$ 5,753,967	\$ 446,626
Net Capital Outlay	443,649	5,857	437,792
Debt Service	<u>131,329</u>	<u>51,089</u>	<u>80,240</u>
Total Expenditures	<u>6,775,571</u>	<u>5,810,913</u>	<u>964,658</u>
Excess of Revenues Over (Under)			
Expenditures	(547,802)	275,395	(823,197)
Other Financing Sources			
Installment loan / Lease proceeds	<u>299,961</u>	<u>-</u>	<u>299,961</u>
Excess of Revenues and Other Financing			
Sources Over (Under) Expenditures	(247,841)	275,395	(523,236)
Fund Balance - January 1	<u>1,753,980</u>	<u>1,478,585</u>	<u>275,395</u>
Fund Balance - December 31	<u>\$ 1,506,139</u>	<u>\$ 1,753,980</u>	<u>\$ (247,841)</u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$339,684 higher than the original budget primarily due to an increase in State Allocation revenue, interest income, and gain on sale of fixed assets.

The final amended expenditure budget for 2006 was lower than the original budget by only \$31,271. The actual expenditures incurred during 2006 were more than the final amended budget by \$1,433,842. There were nine unfavorable variances in expenditure line items.

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Capital Assets

As of the respective year ends, the road commission had invested the following in net capital assets:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ (Decrease)</u>
Capital assets not being depreciated:			
Land and Improvements	\$ 110,375	\$ 110,375	\$ -
Infrastructure and Land Improvements	<u>11,108,464</u>	<u>10,746,149</u>	<u>362,315</u>
Subtotal	<u>11,218,839</u>	<u>10,856,524</u>	<u>362,315</u>
Capital assets being depreciated:			
Buildings	1,315,559	1,315,559	-
Equipment - Road	4,999,034	4,882,195	116,839
Equipment - Shop	70,778	70,778	-
Equipment - Office	69,370	69,370	-
Equipment - Engineering	37,618	37,618	-
Equipment - Yard & Storage	150,730	150,730	-
Infrastructure - Bridges	4,055,372	4,055,372	-
Infrastructure - Roads	<u>26,843,089</u>	<u>24,906,996</u>	<u>1,936,093</u>
Subtotal	<u>37,541,550</u>	<u>35,488,618</u>	<u>2,052,932</u>
Total Capital Assets	48,760,389	46,345,142	2,415,247
Total Accumulated Depreciation	<u>22,386,001</u>	<u>21,260,218</u>	<u>1,125,783</u>
Total Net Capital Assets	<u>\$ 26,374,388</u>	<u>\$ 25,084,924</u>	<u>\$ 1,289,464</u>

Debt related to capital assets – installment loans \$ 292,911

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$2,298,408. The infrastructure recorded during 2006 will be depreciated in following years. The infrastructure is financed through Federal, State and local contributions. The road commission has retroactively reported infrastructure assets (assets acquired after 1980) in 2006 as permitted by GASB 34.

Major capital asset additions included the following by year:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ (Decrease)</u>
Various Resurfacing Projects and Related Costs-Infrastructure	\$ 2,298,408	\$ 1,905,651	\$ 392,757
Trucks/Equipment	<u>816,738</u>	<u>274,030</u>	<u>542,708</u>
Total Additions	<u>\$ 3,115,146</u>	<u>\$ 2,179,681</u>	<u>\$ 935,465</u>

The Road Commission entered into two installment purchases during 2006, purchasing a Komatsu grader for \$161,383 and a CAT grader for \$311,040 and incurring \$299,961 in additional long-term debt to complete the transactions.

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Debt

At the year end, the road commission had \$509,193 in long-term debt, an increase of \$145,338. The debt is payable over the next five years with final payments due in 2011. Other long-term debt is accrued vacation and sick pay leave.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners, along with the road commission's fiscal and chief administrative officers, considered many factors when setting the calendar year 2007 budget. These factors included the economy, township contributions, interest rates and various others. We are projecting no increase in revenue over the year 2006, with a possible increase in expenses due to additional demands by the public for services.

This financial report is designed to provide the public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Mason County Road Commission's administrative offices at 510 E. State Street, Scottville, MI 49454.

MASON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>General Operating Fund</u>
ASSETS	
Cash demand and time deposits	\$ 754,114
Accounts receivable:	
Michigan Transportation Fund	540,212
State - Other	62,053
Due on County Road Agreements	570
Sundry Accounts	22,410
Inventories	
Road Materials	169,200
Equipment Parts and Materials	181,630
Prepaid insurance	56,218
Capital Assets (Net of Accumulated Depreciation)	<u>26,374,388</u>
 TOTAL ASSETS	 <u>28,160,795</u>
 LIABILITIES	
Current Liabilities	
Account payable	95,195
Accrued liabilities	28,104
Advances from governmental units	156,569
Current portion - long-term debt	15,339
Noncurrent liabilities:	
Long-term portion - installment / lease payable	277,572
Vested employee benefits payable	<u>216,282</u>
 TOTAL LIABILITIES	 <u>789,061</u>
 NET ASSETS	
Invested in capital assets, net of related debt	26,081,477
Restricted for County Roads	<u>1,290,257</u>
 TOTAL NET ASSETS	 <u>\$ 27,371,734</u>

See Notes to Financial Statements

**MASON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Program Expenses	
Primary Road Maintenance	\$ 1,478,068
Local Road Maintenance	2,602,334
Net Equipment Expense	560,475
Net Administrative Expense	244,539
State Trunkline Maintenance	462,968
State Trunkline Non-Maintenance	6,395
Compensated Absences	(32,735)
Interest Expense	<u>9,440</u>
Total Program Expenses	<u>5,331,484</u>
Program Revenue	
License and Permits	9,994
State Grants	4,928,940
Contributions From Local Units/Other	482,807
Charges for Services	426,999
Investment Earnings	73,632
Reimbursements/Miscellaneous	<u>3,600</u>
Total Program Revenue	<u>5,925,972</u>
Net Program Revenue	<u>594,488</u>
General Revenue	
Gain on Equipment Disposal	<u>302,197</u>
Total General Revenue	<u>302,197</u>
Change in Net Assets	896,685
Net Assets	
Beginning of Year - As Adjusted (Note N)	<u>26,475,049</u>
End of Year	<u>\$ 27,371,734</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2006

	<u>General Operating Fund</u>
ASSETS	
Cash Demand and Time Deposits	\$ 754,114
Accounts Receivable:	
Due from State	602,265
Due on county Road Agreements	570
Sundry	22,410
Inventories	
Road Materials	169,200
Equipment Parts and Materials	181,630
Prepaid Expenses	<u>56,218</u>
 TOTAL ASSETS	 <u>\$ 1,786,407</u>
 LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	\$ 95,195
Accrued Liabilities	28,104
Advances from Governmental Units	156,569
Deferred Revenue	<u>-</u>
 TOTAL LIABILITIES	 <u>279,868</u>
 FUND EQUITY	
Fund Balance	
Undesignated	<u>1,506,539</u>
 TOTAL FUND EQUITY	 <u>1,506,539</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,786,407</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
Reconciliation of Fund Balances on the Balance Sheet
to the Statement of Net Assets
DECEMBER 31, 2006

Total Governmental Fund Balance	\$ 1,506,539
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets at cost	48,760,389
Accumulated depreciation	(22,386,001)

Long Term Debt - installment loans not due and payable in current period and is not reported in the funds	(292,911)
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Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds	<u>(216,282)</u>
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Net Assets of Governmental Activities	<u>\$ 27,371,734</u>
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MASON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Operating Fund
REVENUES	
Licenses and Permits	\$ 9,994
State Grants	4,928,940
Contributions From Local Units	482,807
Charges for Services	426,999
Interest and Rents	73,632
Gain on Sale of Fixed Assets	302,197
Other Revenue	<u>3,600</u>
 TOTAL PROGRAM REVENUE	 <u>6,228,169</u>
EXPENDITURES	
Public Works	6,200,593
Net Capital Outlay	443,649
Debt Service	<u>131,329</u>
 TOTAL EXPENDITURES	 <u>6,775,571</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(547,402)</u>
OTHER FINANCING SOURCES	
Installment loan / Lease proceeds	<u>299,961</u>
 TOTAL OTHER FINANCING SOURCES	 <u>299,961</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	 <u>(247,441)</u>
 Fund Balance - January 1, 2006	 <u>1,753,980</u>
 Fund Balance - December 31, 2006	 <u><u>\$ 1,506,539</u></u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (247,441)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - Capital Outlay	3,115,146
Deduct - Depreciation Expense	(1,802,582)
Equipment retirement is recorded as an expenditure credit in the governmental funds, but not recorded in the Statement of Activities - net book value of assets sold	(23,101)
Issuance of installment loan/lease purchases provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets	(299,961)
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets	121,889
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported expenditures in governmental funds. (decrease in compensated absences).	<u>32,735</u>
Change in Net Assets	<u>\$ 896,685</u>

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Mason County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Mason County Road Commission.

REPORTING ENTITY

The Mason County Road Commission, which is established pursuant to the County road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The road commission may not issue debt without the County's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the governmental Accounting Standards Board (GASB) Statement NO. 14, "The Financial Reporting entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Mason County Road Commission, a discretely presented component unit of Mason County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of County road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation - Government-Wide financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Mason County Road commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the road commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation - Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus/Basis of Accounting - Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Measurement Focus/Basis of Accounting-Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Mason County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Mason County Road Commission has capitalized the current year's infrastructure, as well as the prior year's, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The road commission has retroactively capitalized the major infrastructure assets during the current year, as permitted by GASB 34. As of December 31, 2005 only infrastructure additions for 2003, 2004, and 2005 had been recorded.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years	Shop Equipment	10 years
Road Equipment	5 to 8 years	Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years	Infrastructure - Roads	8 to 30 years
Infrastructure - Bridges	12 to 50 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE B - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2006 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts budgeted as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Preservation - Structural Improvements	\$ 1,460,358	\$ 1,535,407	\$ (75,049)
Maintenance	\$ 657,387	\$ 837,398	\$ (180,011)
Local Road:			
Maintenance	\$ 1,302,135	\$ 1,790,410	\$ (488,275)
State Non-maintenance	\$ -	\$ 6,395	\$ (6,395)
Administrative Expense - Net	\$ 176,635	\$ 244,539	\$ (67,904)
Capital Outlay - Net	\$ 102,556	\$ 443,649	\$ (341,093)
Equipment Expense - Net	\$ (42,216)	\$ 560,475	\$ (602,691)
Debt Service:			
Principal	\$ 121,029	\$ 121,889	\$ (860)
Interest	\$ 7,753	\$ 9,440	\$ (1,687)

The above line items were spent in excess of their respective budgeted amounts. The budget was exceeded in total by \$ 1,433,842.

NOTE C - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest cash	\$ 100	Imprest cash	\$ 100
Cash demand and time deposits	754,014	Savings and checking	529,330
		Certificates of Deposit	224,684
Total	<u>\$ 754,114</u>		<u>\$ 754,114</u>

DEPOSITS - At year-end the carrying amount of the road account deposits was \$754,014 and the bank balance was \$879,045. These funds are 30.7% insured by the Federal Deposit Insurance Corporation.

Investments - Act 217, PA 1982, authorized the commission to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE C - CASH AND INVESTMENTS (CONTINUED)

- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest Rate Risk – The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial Deposit Credit Risk – custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end \$522,543 of the Commission's bank balance of \$754,014 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE D - POST EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission provides post retirement health care benefits to employees who retire from the Road Commission after January 1, 1989 and are between the ages of 58 and 65 and have ten years of service. The Road Commission will pay \$250 of the cost for the employee and spouse. During 2006 the Road Commission funded approximately \$10,209. Three employees were eligible for these post employment benefits at year end.

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE/HIGHWAY MAINTENANCE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. Equipment advance monies for fiscal 2006 amounted to \$75,116. The State has also advanced \$46,053 on the highway maintenance agreement.

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE F - CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balance <u>1/1/06</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
Capital assets not being depreciated:				
Land and Improvements	\$ 110,375	\$ -	\$ -	\$ 110,375
Infrastructure and Land Improvements	<u>10,746,149</u>	<u>362,315</u>	<u>-</u>	<u>11,108,464</u>
	<u>10,856,524</u>	<u>362,315</u>	<u>-</u>	<u>11,218,839</u>
Capital assets being depreciated:				
Buildings	1,315,559	-	-	1,315,559
Equipment - Road	4,882,195	816,738	699,899	4,999,034
Equipment - Shop	70,778	-	-	70,778
Equipment - Office	69,370	-	-	69,370
Equipment - Engineering	37,618	-	-	37,618
Equipment - Yard & Storage	150,730	-	-	150,730
Infrastructure - Bridges	4,055,372	-	-	4,055,372
Infrastructure - Roads	<u>24,906,996</u>	<u>1,936,093</u>	<u>-</u>	<u>26,843,089</u>
Subtotal	<u>35,488,618</u>	<u>2,752,831</u>	<u>699,899</u>	<u>37,541,550</u>
Accumulated Depreciation:				
Buildings	687,169	36,751	-	723,920
Equipment - Road	4,316,618	297,633	676,799	3,937,452
Equipment - Shop	47,204	4,586	-	51,790
Equipment - Office	65,025	1,003	-	66,028
Equipment - Engineering	30,707	2,094	-	32,801
Equipment - Yard & Storage	121,193	7,921	-	129,114
Infrastructure - Roads/Bridges	<u>15,992,302</u>	<u>1,452,594</u>	<u>-</u>	<u>17,444,896</u>
Subtotal	<u>21,260,218</u>	<u>1,802,582</u>	<u>676,799</u>	<u>22,386,001</u>
Net Capital Assets Being Depreciated	<u>14,228,400</u>	<u>950,249</u>	<u>23,100</u>	<u>15,155,549</u>
Total Net Capital Assets	<u>\$ 25,084,924</u>	<u>\$ 1,312,564</u>	<u>\$ 23,100</u>	<u>\$ 26,374,388</u>

Depreciation expense was charged to operations as follows:

Primary	\$ 640,670
Local	811,924
Equipment	346,568
Administration	<u>3,420</u>
Total Depreciation	<u>\$ 1,802,582</u>

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE G - DEFERRED REVENUE

During 2003 the Road commission and the Michigan Department of Transportation (MDOT) negotiated a contract whereby a specific road segment was transferred from MDOT jurisdiction to Road Commission jurisdiction in exchange for a lump sum payment by MDOT to the Road commission. The lump sum must be used to renovate, repair and/or reconstruct the road segment within a five year period. The lump sum, in an amount of \$1,987,000 was received in 2003 but none of the work was performed. The amount has been recorded as deferred revenue and will be recorded as revenue as it is earned throughout the project period. During 2005 \$834,065 was earned and recorded as revenue. The deferred revenue balance was \$1,129,597 as of December 31, 2006. During 2006 the project was completed and the entire balance was recorded as revenue.

NOTE H - FEDERAL REVENUES/EXPENDITURES

Most Federal dollars recorded by the Mason County Road Commission in 2006 were for projects controlled by the Michigan Department of Transportation. Federal compliance testing of these funds will be included in the audit of MDOT and not at the local Road Commission level. No A-133 Single Audit is required for the Mason County Road Commission for the year ended December 31, 2006.

NOTE I - RISK MANAGEMENT

Mason County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Mason Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. Settled claims for the general liability coverage have not exceeded the amount of coverage in any of the past three years.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE J - PENSION PLAN

Plan Description

The Mason County Road Commission participates in a defined contribution plan administered by the Municipal Employee's Retirement System(MERS). The plan covers substantially all full-time employees. The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE J - PENSION PLAN (CONTINUED)

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time County Road union and administrative employees are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 55 with 30 years credited service and staff employees who retire at or after age 55 with 25 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0 percent of the member's 5-year final average compensation per year of service. The system also provides death and disability benefits which are established by State Statute.

Participating County Road employees are required to contribute 1.0 percent of annual compensation. The County Road is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an initial actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 4.5% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/05) (Most recent data available)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 1,287,504
Terminated employees not yet receiving benefits	31,429
Current employees:	
Accumulated employee contributions including	
allocated investment income	463,338
Employer financed	<u>2,321,875</u>
Total Actuarial accrued liability	4,104,146
Net Assets Available for Benefits, at actuarial value	
(Market Value \$2,326,109)	<u>(2,389,063)</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,715,083</u>

GASB 27 INFORMATION (as of 12/31/05)

Fiscal year beginning	January 1, 2007
Annual required contribution (ARC)	\$ 177,756

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE J - PENSION PLAN (CONTINUED)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 184,068	100%	-0-
2005	\$ 190,387	100%	-0-
2006	\$ 186,044	100%	-0-

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
12/31/03	\$ 1,559,870	\$ 3,304,511	\$ 1,744,641	47%	\$ 1,404,661	124%
12/31/04	\$ 1,995,842	\$ 3,865,719	\$ 1,869,877	52%	\$ 1,429,672	131%
12/31/05	\$ 2,389,063	\$ 4,104,146	\$ 1,715,083	58%	\$ 1,444,397	119%

NOTE K - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

<u>Description</u>	<u>January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2006</u>
Caterpillar Financial Service Corp	\$ 114,838	\$ -	\$ 114,838	\$ -
Wells Fargo	-	160,400	6,048	154,352
Caterpillar Financial Service Corp		139,561	1,002	138,559
Compensated Absences (1)	249,017	-	32,735	216,282
Total	<u>\$ 363,855</u>	<u>\$ 299,961</u>	<u>\$ 154,623</u>	<u>\$ 509,193</u>

(1) The change in compensated absences is shown as a net reduction.

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE K - LONG TERM DEBT (CONTINUED)

During 2006 the Road Commission entered into an installment purchase contract to purchase a Komatsu Grader. Payments are \$1,789 per month and began 9/1/06. The final payoff date is 9/1/11. The Road Commission borrowed on a third party agreement with Wells Fargo Equipment Finance Company. Interest is computed at a rate of 5.54% per annum.

During 2006 the Road Commission purchased a Caterpillar motor grader and financed it on a lease/purchase with Caterpillar Financial Services Corporation. The interest rate is 5.165% per annum with monthly payments of \$757 required. After 60 months (July 1, 2011) a final balloon payment of \$128,502 would be required to pay the balance due.

Annual Debt Service Requirements:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Principal	\$ 15,339	\$ 16,202	\$ 17,112	\$ 18,074	\$ 226,184	\$ 292,911
Interest	<u>15,215</u>	<u>14,353</u>	<u>13,442</u>	<u>12,481</u>	<u>6,383</u>	<u>61,874</u>
	<u>\$ 30,554</u>	<u>\$ 30,555</u>	<u>\$ 30,554</u>	<u>\$ 30,555</u>	<u>\$ 232,567</u>	<u>\$ 354,785</u>

NOTE L - FUND BALANCE DEFICIT

At December 31, 2006 the components of the Road Commission fund balance were as follows:

<u>Total</u>	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>
<u>\$1,506,539</u>	<u>\$ 2,478,251</u>	<u>\$ (844,684)</u>	<u>\$ (127,028)</u>

The total fund balance decreased by \$247,441, and, the Local Road fund balance and the County Road fund balance both show deficits as detailed above.

NOTE M - COMPENSATED ABSENCES

County Road employee's earn vacation leave in varying amounts depending on the number of years of service. Unpaid vacation leave at December 31, 2006 amounted to \$58,199.

Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 656 hours or 82 days. Unpaid sick leave at December 31, 2006 amounted to \$120,649.

Unpaid personal leave amounted to \$37,434 at December 31, 2006.

Upon termination of employment, vacation is payable at 100 percent of the accumulated balance. Sick leave is payable at 50 percent only upon death or retirement for most employees.

For future periods, sick pay will no longer accumulate. Eight days per year are allowed and if not used by December 31, they are paid on the first pay of December each year. The accumulated balances shown above will therefore not increase, but will decrease annually as they are paid off.

**MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE N- PRIOR PERIOD ADJUSTMENT / ACCOUNTING CHANGE

In the government wide financial statements the beginning balance as of January 1, 2006 of Net Capital Assets was increased by \$ 18,742,894 which has the effect of increasing Net Assets by the same amount. The adjustment is detailed as follows:

Adjustment to beginning infrastructure cost	\$ 34,247,552
Adjustment to beginning infrastructure accumulated depreciation	<u>(15,504,658)</u>
	<u>\$ 18,742,894</u>

The adjustment occurred because the Road Commission completed the GASB #34 conversion by capitalizing retroactively infrastructure from 1980 through 2002. The infrastructure for 2003, 2004, and 2005 had been accounted for in those respective years in accordance with GASB #34 provisions.

REQUIRED SUPPLEMENTARY INFORMATION

MASON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
Licenses and Permits:				
Permits	\$ 6,000	\$ 7,964	\$ 9,994	\$ 2,030
Subtotal	<u>6,000</u>	<u>7,964</u>	<u>9,994</u>	<u>2,030</u>
State Aid:				
Engineering	10,000	10,000	10,000	-
Allocation	3,350,000	3,631,295	3,454,952	(176,343)
Snow Removal	120,000	120,555	120,555	-
Economic Development Funds/Other	48,300	48,298	213,836	165,538
PM Highway Turnback	<u>1,200,000</u>	<u>1,129,597</u>	<u>1,129,597</u>	<u>-</u>
Subtotal	<u>4,728,300</u>	<u>4,939,745</u>	<u>4,928,940</u>	<u>(10,805)</u>
Contributions				
Townships	600,000	484,865	474,602	(10,263)
Other	<u>-</u>	<u>-</u>	<u>8,205</u>	<u>8,205</u>
Subtotal	<u>600,000</u>	<u>484,865</u>	<u>482,807</u>	<u>(2,058)</u>
Charges for Services:				
State Trunkline Maintenance	500,000	533,576	420,604	(112,972)
State Trunkline Non-Maintenance	<u>-</u>	<u>-</u>	<u>6,395</u>	<u>6,395</u>
Subtotal	<u>500,000</u>	<u>533,576</u>	<u>426,999</u>	<u>(106,577)</u>
Interest				
Interest Income	<u>30,000</u>	<u>81,397</u>	<u>73,632</u>	<u>(7,765)</u>
Other Revenue:				
Miscellaneous	2,000	899	3,600	2,701
Gain on Sale of Fixed Assets	<u>15,000</u>	<u>120,000</u>	<u>302,197</u>	<u>182,197</u>
Subtotal	<u>17,000</u>	<u>120,899</u>	<u>305,797</u>	<u>184,898</u>
Other Financing Sources				
Installment loan / Lease proceeds	<u>-</u>	<u>-</u>	<u>299,961</u>	<u>299,961</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>299,961</u>	<u>299,961</u>
Total Revenue and Other Financing Sources	<u>\$ 5,881,300</u>	<u>\$ 6,168,446</u>	<u>\$ 6,528,130</u>	<u>\$ 359,684</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Adopted Budget	Final Amended Budget	Actual	Variance With Final Budget
Primary Road:				
Preservation - Structural Improvements	\$ 1,350,000	\$ 1,460,358	\$ 1,535,407	\$ (75,049)
Maintenance	700,000	657,387	837,398	(180,011)
Local Road:				
Preservation - Structural Improvements	800,000	800,516	763,001	37,515
Maintenance	1,300,000	1,302,135	1,790,410	(488,275)
State Trunkline Maintenance	600,000	533,576	462,968	70,608
State Trunkline Non-Maintenance	-	-	6,395	(6,395)
Equipment Expense - Net:				
Direct			930,211	
Indirect			504,748	
Operating			318,212	
Less: Equipment Rental	-	-	(1,192,696)	-
(1)	<u>50,000</u>	<u>(42,216)</u>	<u>560,475</u>	<u>(602,691)</u>
Administrative Expense - Net:				
Administrative Expense			290,744	
Less: Overhead - State Trunkline			(43,010)	
Less: Purchase Discounts and Handling				
Charges	-	-	(3,195)	-
(1)	<u>200,000</u>	<u>176,635</u>	<u>244,539</u>	<u>(67,904)</u>
Capital Outlay - Net:				
Capital Outlay	421,000	317,103	816,738	(499,635)
Less:				
Depreciation/Equipment Retirements	<u>(360,000)</u>	<u>(214,547)</u>	<u>(373,089)</u>	<u>158,542</u>
	<u>61,000</u>	<u>102,556</u>	<u>443,649</u>	<u>(341,093)</u>
Debt Service:				
Principal	70,000	121,029	121,889	(860)
Interest	20,000	7,753	9,440	(1,687)
Equipment Fund	150,000	150,000	-	150,000
Building Fund	<u>72,000</u>	<u>72,000</u>	<u>-</u>	<u>72,000</u>
	<u>312,000</u>	<u>350,782</u>	<u>131,329</u>	<u>219,453</u>
Total Expenditures	<u>\$ 5,373,000</u>	<u>\$ 5,341,729</u>	<u>\$ 6,775,571</u>	<u>\$ (1,433,842)</u>

(1) Note: This portion of budget was adopted in total only

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

MASON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues and Other Financing Sources	\$ 3,751,047	\$ 2,045,994	\$ 731,089	\$ 6,528,130
Total Expenditures	<u>2,872,617</u>	<u>3,059,717</u>	<u>843,237</u>	<u>6,775,571</u>
Excess of Revenues Over (Under) Expenditures	878,430	(1,013,723)	(112,148)	(247,441)
Fund Balance - January 1	2,258,437	(489,577)	(14,880)	1,753,980
Interfund Adjustments	<u>(658,616)</u>	<u>658,616</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31, 2006	<u>\$ 2,478,251</u>	<u>\$ (844,684)</u>	<u>\$ (127,028)</u>	<u>1,506,539</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits:				
Permits	\$ -	\$ 9,994	\$ -	\$ 9,994
State Aid:				
Engineering	6,064	3,936	-	10,000
Allocation	2,078,228	1,376,724	-	3,454,952
Urban Roads	117,160	48,378	-	165,538
Snow Removal	-	120,555	-	120,555
State Other	48,298	-	-	48,298
PM Reconstruction	1,129,597	-	-	1,129,597
Contributions				
Townships	-	474,602	-	474,602
Other	-	8,205	-	8,205
Charges for Services:				
State Trunkline Maintenance	-	-	420,604	420,604
State Trunkline Non-Maintenance	-	-	6,395	6,395
Interest				
Interest Income	73,632	-	-	73,632
Other Revenue:				
Salvage Sales / Other	-	3,600	-	3,600
Gain on Sale of fixed Assets	<u>149,587</u>	<u>-</u>	<u>152,610</u>	<u>302,197</u>
 Total Revenue	 3,602,566	 2,045,994	 579,609	 6,228,169
Other Financing Sources				
Installment loan / Lease proceeds	<u>148,481</u>	<u>-</u>	<u>151,480</u>	<u>299,961</u>
 Total Other Financing Sources	 <u>148,481</u>	 <u>-</u>	 <u>151,480</u>	 <u>299,961</u>
 Total Revenue and Other Financing Sources	 <u>\$ 3,751,047</u>	 <u>\$ 2,045,994</u>	 <u>\$ 731,089</u>	 <u>\$ 6,528,130</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Preservation-Structural Maintenance	\$ 1,535,407	\$ 763,001	\$ -	\$ 2,298,408
Maintenance	837,398	1,790,410	-	2,627,808
State Trunkline				
Trunkline Maintenance	-	-	462,968	462,968
Trunkline Non-Maintenance	-	-	6,395	6,395
Equipment Expense - Net	97,411	379,554	83,510	560,475
Administrative Expense - Net	117,787	126,752	-	244,539
Capital Outlay - Net	219,606	-	224,043	443,649
Debt Service				
Debt Principal Payments	60,335	-	61,554	121,889
Interest	4,673	-	4,767	9,440
Total Expenditures	<u>\$ 2,872,617</u>	<u>\$ 3,059,717</u>	<u>\$ 843,237</u>	<u>\$ 6,775,571</u>

See Notes to Financial Statements



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

February 26, 2007

Board of County Road Commissioners
Mason County
Scottville, Michigan 49454

I have audited the component unit financial statements of the governmental activities and major fund of the Mason County Road Commission, a Special Revenue Fund of the County of Mason, Michigan, as of and for the year ended December 31, 2006 which collectively comprise the Mason County Road Commission's basic financial statements, and have issued my report thereon dated February 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government and Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mason County Road Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mason County Road Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Mason County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mason County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mason County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Mason County Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mason County Road Commission's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mason County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, grants, and contract agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of Mason County Road Commission in a separate letter dated February 26, 2007.

This report is intended solely for the information and use of management, the Board of Road Commissioners, the Michigan Department of Treasury, and Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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FINANCIAL AUDIT COMMENTS

February 26, 2007

Board of County Road Commissioners
Mason County
Scottville, Michigan 49454

In planning and performing my audit of the component unit financial statements of Mason County Road Commission, for the year ended December 31, 2006, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I would like to bring to your attention.

BUDGETS

The Road Commission follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Act of 1978) as prescribed by the State of Michigan.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2006, the County Road Commission incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Preservation - Structural Improvements	<u>\$ 1,460,358</u>	<u>\$ 1,535,407</u>	<u>\$ (75,049)</u>
Maintenance	<u>\$ 657,387</u>	<u>\$ 837,398</u>	<u>\$ (180,011)</u>
Local Road:			
Maintenance	<u>\$ 1,302,135</u>	<u>\$ 1,790,410</u>	<u>\$ (488,275)</u>
State Non-maintenance	<u>\$ -</u>	<u>\$ 6,395</u>	<u>\$ (6,395)</u>
Administrative Expense - Net	<u>\$ 176,635</u>	<u>\$ 244,539</u>	<u>\$ (67,904)</u>
Capital Outlay - Net	<u>\$ 102,556</u>	<u>\$ 443,649</u>	<u>\$ (341,093)</u>
Equipment Expense - Net	<u>\$ (42,216)</u>	<u>\$ 560,475</u>	<u>\$ (602,691)</u>
Debt Service:			
Principal	<u>\$ 121,029</u>	<u>\$ 121,889</u>	<u>\$ (860)</u>
Interest	<u>\$ 7,753</u>	<u>\$ 9,440</u>	<u>\$ (1,687)</u>

The budget was exceeded in total by \$ 1,433,842.

FUND BALANCE

During the fiscal year ended December 31, 2006 your total fund balance decreased by \$247,441. The present fund balance of \$1,506,539 is adequate, however, expenditures in the local road fund portion of the fund balance have exceeded revenues for the past several years. The State Statutes permit an optional transfer of up to 30% of your ACT 51 allocation annually from the primary fund to the local fund, but with your current expenditure levels the fund balance deficit in the local road fund portion of your fund balance still shows a deficit of \$844,684 at December 31, 2006 and your County Road Fund also shows a deficits of \$127,028. A deficit elimination plan must be filed with the Department of Treasury because the deficit still exists.

This report is intended solely for the information and use of the Mason County Road Commission, its management, and the Michigan Departments of Treasury and Transportation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT